

**TOWNSHIP OF CHARLTON**  
**OTSEGO COUNTY, MICHIGAN**  
**AUDITED FINANCIAL STATEMENTS**  
**MARCH 31, 2006**

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name <b>CHARLTON</b>	County <b>OTSEGO</b>
Fiscal Year End <b>MARCH 31, 2006</b>	Opinion Date <b>SEPTEMBER 12, 2006</b>	Date Audit Report Submitted to State <b>NOVEMBER 28, 2006</b>	

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | YES                                 | NO                                  | Check each applicable box below. (See instructions for further detail.)   |
|-------------------------------------|-------------------------------------|---|
| <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.   |
| <input type="checkbox"/>            | <input checked="" type="checkbox"/> | 4. The local unit has adopted a budget for all required funds.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 5. A public hearing on the budget was held in accordance with State statute.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 8. The local unit only holds deposits/investments that comply with statutory requirements.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin).   |
| <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 11. The local unit is free of repeated comments from previous years.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 12. The audit opinion is UNQUALIFIED.   |
| <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 14. The board or council approves all invoices prior to payment as required by charter or statute.  |
| <input checked="" type="checkbox"/> | <input type="checkbox"/>            | 15. To our knowledge, bank reconciliations that were reviewed were performed timely.  |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) <b>KESKINE, COOK, MILLER &amp; ALEXANDER LLP</b>		Telephone Number <b>989-732-7515</b>	
Street Address <b>100 W FIRST ST</b>		City <b>GAYLORD</b>	State <b>MI</b>
		Zip <b>49734</b>	
Authorizing CPA Signature 		Printed Name <b>WALTER J KESKINE</b>	License Number <b>1101008795</b>

## **Township of Charlton**

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**Keskin, Cook, Miller & Alexander LLP**  
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

**Independent Auditor's Report**

Walter J. Keskin, C.P.A.  
Jeffrey B. Cook, C.P.A.  
Richard W. Miller, C.P.A.  
Ronald D. Alexander, C.P.A.  
Curt A. Reppuhn, C.P.A.

September 12, 2006

To the Township Board  
Charlton Township  
Otsego County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Township of Charlton, as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental activities and each major fund, of the Township of Charlton as of March 31, 2006, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 2, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of April 1, 2005.

The management's discussion and analysis on pages 2-5 and budgetary comparison information on pages 22-25 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

*K. K. Cook Miller & Alexander LLP*  
KESKINE, COOK, MILLER & ALEXANDER, LLP

**TOWNSHIP OF CHARLTON  
MANAGEMENT'S DISCUSSION & ANALYSIS  
YEAR ENDED MARCH 31, 2006**

This section of Charlton Township's annual financial report presents our discussion and analysis of the Township's financial performance during the fiscal year ended March 31, 2006. Please read it in conjunction with the financial statements, which immediately follow this section.

**FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE**

**Governmental Activities:**

Our financial status increased over the last year. Assets at March 31, 2006 totaled approximately \$1,116,000. Of this total, approximately \$597,000 represents capital assets net of depreciation.

Revenues derived from governmental activities were approximately \$461,000 (approximately \$131,000 from program revenues and \$330,000 from general revenues). The Township's major source of governmental revenues is derived from property taxes and state shared revenues (approximately \$203,000 and \$145,000 respectively for the year ended March 31, 2006). Total revenues increased approximately \$140,000 or 44% from the year ended March 31, 2005. State grant reimbursement and a new fire and EMS millage contributed most of the increase. Overall expenses for the Township's governmental activities approximated \$387,000 which is an increase of approximately \$67,000 over the year ended March 31, 2005. The increase in expenditures is due to road expenditures during the year ended March 31, 2006 that totaled approximately \$60,000 as compared to none in the year ended March 31, 2005 and approximately \$9,000 in capital asset additions as compared to \$20,000 in the year ended March 31, 2005.

The following table shows in condensed format, the net assets of the governmental-type activities of the Township as of March 31, 2006.

		<b>Governmental Activities</b>	
		<u>March 31, 2006</u>	<u>March 31, 2005</u>
<b>Assets</b>			
Current assets		\$ 518,711	\$ 424,700
Noncurrent assets		597,349	617,687
Total assets		<u>1,116,060</u>	<u>1,042,387</u>
<b>Liabilities</b>			
Current liabilities		3,847	-
Noncurrent liabilities		-	-
Total liabilities		<u>3,847</u>	<u>-</u>
<b>Net Assets</b>			
Invested in capital assets - net of related debt		597,349	617,687
Restricted		263,564	208,540
Unrestricted		251,300	212,313
Total net assets		<u>\$ 1,112,213</u>	<u>\$ 1,038,540</u>

**Business-type Activities:**

The Township currently has no business-type activities.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts: management's discussion and analysis, the basic financial statements, and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township.

The first two statements are government-wide financial statements and provide both long and short-term information about our overall financial status. These statements present all governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The government-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two government-wide statements report net assets and how they have changed. Net assets are the difference between the Township's assets and liabilities. This is one method to measure our financial health or position.

Over time, increases or decreases in the Township's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the Township, you may also have to consider additional factors such as tax base changes, facility conditions, and personnel changes.

All of the activities of Charlton Township are reported as governmental activities. These would include the operations recorded in the General, Fire/EMS and Road Funds.

## FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds, not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditure of those resources.

The Township has the following types of funds:

**Governmental Funds:** Most of the Township's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's government-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them.

**Fiduciary Funds:** The Township is a trustee or fiduciary for assets that belong to others. The Township maintains these funds and is responsible for insuring that the assets of these activities are collected and disbursed to the respective entities to which the funds belong. These activities do not appear in the Township's government-wide financial statements since the assets do not belong to the Township. The Township maintains a Tax Collection Fund in this category.

## FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

**General Fund** – This fund is used to record all activities of the Township not required to be recorded in a separate fund. The major source of revenue for the general fund is from the Township tax base, and revenue sharing from the State of Michigan. The major expenses for this fiscal year include the general operating activities of the Township.

**Fire/EMS Fund** – This fund is used to account for the financial activities of the fire department. Revenues are derived primarily from property taxes collected for fire protection services.

**Road Fund** – This fund is used to account for financial transactions related to the repair and maintenance of the Township's roads. Revenues consist mainly of special assessment property taxes and contributions from the general fund.

## CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

### Capital Assets:

Additions to Township assets for this year include the following:

### Governmental Activities:

- Township Building Improvements – approximately \$6,532
- Various equipment / furniture – approximately \$2,514

**Long Term Debt:**

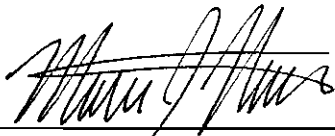
The Township has no long-term debt at March 31, 2006

**KNOWN FACTORS AFFECTING FUTURE OPERATIONS**

The new Fire and EMS millage will significantly increase future expenditures for replacement of equipment.

**CONTACTING TOWNSHIP MANAGEMENT**

This financial report is designed to provide our taxpayers, creditors, investors, and customers with a general overview of the Township's finances and to demonstrate the Township's accountability for the revenues it receives. If you have any questions concerning this report, please contact Matthew Nowak, P O Box 367, Johannesburg, MI 49751 or by calling (989) 731-1920.

A handwritten signature in black ink, appearing to read 'Matthew Nowak', written over a horizontal line.

Matthew Nowak, Township Supervisor



**TOWNSHIP OF CHARLTON  
STATEMENT OF NET ASSETS  
MARCH 31, 2006**

**Assets**

Cash	\$ 507,896
Receivables	10,815
Capital assets not being depreciated	22,412
Capital assets being depreciated, net	574,937
	<hr/>
Total assets	1,116,060

**Liabilities**

Accounts payable	3,288
Accrued liabilities	559
	<hr/>
Total liabilities	3,847

**Net Assets**

Invested in capital assets	597,349
Restricted for:	
Fire / EMS services	116,350
Roads	147,214
Unrestricted	251,300
	<hr/>
Total net assets	<u><u>\$ 1,112,213</u></u>

See accompanying notes to financial statements.

**TOWNSHIP OF CHARLTON  
STATEMENT OF ACTIVITIES  
YEAR ENDED MARCH 31, 2006**

Functions / Programs	Expenses	Charges for Services	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
			Operating Grants and Contributions	Capital grants and Contributions	
Primary government:					
General government	\$ (217,157)	\$ 85,770	\$ 31,100	\$ -	\$ (100,287)
Public safety	(59,501)	14,453	-	-	(45,048)
Public works	(104,272)	-	-	-	(104,272)
Recreation and culture	(2,771)	-	-	-	(2,771)
Health and welfare	(3,464)	-	-	-	(3,464)
Total governmental activities	\$ (387,165)	\$ 100,223	\$ 31,100	\$ -	\$ (255,842)
General revenue:					
Property taxes					202,296
State shared revenue (not restricted to a specific purpose)					113,827
Interest					6,772
Miscellaneous revenue					6,620
Total general revenue					329,515
Change in net assets					73,673
Net assets - April 1, 2005					1,038,540
Net assets - March 31, 2006					1,112,213

See accompanying notes to financial statements

TOWNSHIP OF CHARLTON  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
MARCH 31, 2006

	<u>M a j o r   F u n d s</u>			
	General	Fire / EMS	Roads	Total
<b>Assets</b>				
Cash	\$ 248,991	\$ 108,403	\$ 150,502	\$ 507,896
Receivables	2,692	7,947	-	10,639
Due from other funds	176	-	-	176
Total assets	\$ 251,859	\$ 116,350	\$ 150,502	\$ 518,711

**Liabilities and Fund Balances**

<b>Liabilities</b>				
Accounts payable	\$ -	\$ -	\$ 3,288	\$ 3,288
Accrued liabilities	559	-	-	559
Total liabilities	559	-	3,288	3,847
<b>Fund Balance</b>				
Unreserved and undesignated	251,300	116,350	147,214	514,864
Total liabilities and fund balances	\$ 251,859	\$ 116,350	\$ 150,502	\$ 518,711

See accompanying notes to financial statements

**TOWNSHIP OF CHARLTON  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
MARCH 31, 2006**

<b>TOTAL FUND BALANCES - GOVERNMENTAL ACTIVITIES (PER BALANCE SHEET - PAGE 8)</b>	<b>\$ 514,864</b>
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Amounts reported for governmental activities in the Statement of Net Assets (page 6) are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not recorded in the funds. This represents the amounts by which capital assets used in governmental funds exceeds accumulated depreciation.

597,349

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<b>TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES (PER THE STATEMENT OF NET ASSETS - PAGE 6)</b>
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**\$ 1,112,213**

See accompanying notes to financial statements

**TOWNSHIP OF CHARLTON**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**YEAR ENDED MARCH 31, 2006**

	General	Fire / EMS	Roads	Total
<b>Revenues</b>				
Property taxes and assessments	\$ 106,238	\$ 115,823	\$ -	\$ 222,061
State sources	120,926	-	-	120,926
User fees	37,677	-	-	37,677
Charges for services	40,720	14,453	-	55,173
Interest and royalties	8,824	573	111	9,508
Other	15,493	-	-	15,493
Total revenues	329,878	130,849	111	460,838
<b>Expenditures</b>				
Current:				
General government	204,573	-	-	204,573
Public safety	-	47,772	-	47,772
Public works	42,835	-	61,437	104,272
Recreation and culture	1,164	-	-	1,164
Capital outlay	9,046	-	-	9,046
Total expenditures	257,618	47,772	61,437	366,827
Excess (deficiency) of revenue over (under) expenditures				94,011
<b>Other financing sources (uses)</b>				
Transfers in (out)	(33,273)	33,273	-	-
<b>Net Change in Fund Balances</b>	38,987	116,350	(61,326)	94,011
<b>Fund Balance - Beginning of Year</b>	212,313	-	208,540	420,853
<b>Fund Balance - End of Year</b>	\$ 251,300	\$ 116,350	\$ 147,214	\$ 514,864

See accompanying notes to financial statements.

**TOWNSHIP OF CHARLTON  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
MARCH 31, 2006**

<b>NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS</b>	<b>\$</b>	<b>94,011</b>
<b>- PAGE 10</b>		

Amounts reported for governmental activities in the Statement of Activities  
(page 7) are different because:

Governmental funds report capital outlays as expenditures. However  
in the statement of activities, the cost of those assets are capitalized  
and depreciation charged to expense over their useful life.

Depreciation expense - current year		(29,384)
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Cost of assets capitalized - current year		9,046
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<b>CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES (PER THE STATEMENT OF ACTIVITIES - PAGE 7)</b>	<b>\$</b>	<b><u>73,673</u></b>
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See accompanying notes to financial statements

**TOWNSHIP OF CHARLTON  
STATEMENT OF ASSETS AND LIABILITIES  
FIDUCIARY FUND  
AS OF MARCH 31, 2006**

<b>Assets</b>	
Cash	\$ 1,718
<b>Liabilities</b>	
Due to other funds	\$ 176
Due to Other Governments	1,542
<b>Total Liabilities</b>	<b>1,718</b>

See accompanying notes to financial statements.

**TOWNSHIP OF CHARLTON  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2006**

**NOTE 1: ENTITY**

The Township of Charlton is a general law township of the State of Michigan, located in Otsego County, Michigan. The Township of Charlton operates under a five-member elected Board. The criteria for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public service and special financing relationships. On this basis, the financial statements include all of the governmental functions of Charlton Township.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**INTRODUCTION**

The accounting and reporting framework and the more significant accounting principles and practices of Charlton Township are discussed in subsequent sections of this Note. The remainder of the Notes are organized to provide explanations including required disclosures of the Township's financial activities for the year.

The accounting policies of Charlton Township conform to the generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies.

On April 1, 2005, Charlton Township adopted the new governmental reporting model and implemented Governmental Accounting Standards Board (GASB) Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments" and Statement No. 38 "Certain Financial Statement Note Disclosures".

Under the provisions of GASB Statements No. 34 and 38, the focus of the Township's financial statements has shifted from a fund focus to a government-wide focus.

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION**

***Government-Wide Financial Statements***

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Township as a whole, excluding fiduciary activities such as tax collection activities. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and Township general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers. Charlton Township has no business-type activities as of March 31, 2006.



**TOWNSHIP OF CHARLTON  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2006**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENT PRESENTATION  
(CONTINUED)**

The statement of activities reports the expenses of a given function offset by program revenues directly connected with functional programs. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Township's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

***Fund Financial Statements***

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

The measurement focus and basis of accounting for the government-wide and fund financial statements are described in a subsequent section of this note.

**FUND TYPES AND MAJOR FUNDS**

***Governmental Funds***

The Township reports the following major governmental funds:

*General Fund* – This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state grants, interest, and other intergovernmental revenues.

*Fire / EMS Fund* – This fund is used to account for the Township's fire fighting EMS activity. Charlton Township also contracts with neighboring Chester Township to provide fire protection services.

*Road Fund* – This fund is used to account for the Township's road improvements and maintenance performed.

The Township has no non-major funds.

**TOWNSHIP OF CHARLTON  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2006**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**FUND TYPES AND MAJOR FUNDS (CONTINUED)**

***Fiduciary Fund***

Fiduciary funds are used to account for assets held by the Township as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Township maintains a tax collection fund in this category.

**MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

The financial statements of the Township are prepared in accordance with generally accepted accounting principles (GAAP). The Township applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The Township does not apply FASB pronouncements or APB opinions issued after November 30, 1989.

***Government-Wide Financial Statements***

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Fiduciary fund financial statements also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

***Governmental Fund Financial Statements***

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities.

**TOWNSHIP OF CHARLTON  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2006**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (CONTINUED)**

***Governmental Fund Financial Statements (Continued)***

The Township considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: sales and use taxes, property taxes, franchise taxes (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

**Property Taxes**

The property tax calendar is as follows:

Levy Dates	July 1, 2005	(summer collection)
	December 1, 2005	(winter collection)
Due Dates	September 15, 2005	(summer collection)
	February 15, 2006	(winter collection)

The real property tax rolls were turned over to the County of Otsego on March 1, 2006. Collection of personal property taxes remains the responsibility of the Township. Amounts collected after the due date are assessed interest and / or penalty provisions. A county revolving fund normally pays the balance of the Township's real property tax levy by May 31. The entire Township levy is recorded as revenue in the current year.

The tax rates for the year ended March 31, 2006, were as follows:

<b><u>Purpose</u></b>	<b><u>Rate</u></b>
General	0.9542/\$1,000
Fire	1.2000/\$1,000

**TOWNSHIP OF CHARLTON  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2006**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**CAPITAL ASSETS AND DEPRECIATION**

The Township's property, plant, and equipment with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. Donated assets are stated at fair value on the date donated. The Township generally capitalizes assets with historical cost of \$1,500 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

The following ranges are proposed as guidelines in estimating useful lives for asset reporting:

Buildings and improvements	40 – 100
Land improvements	10 – 50
Machinery and equipment	3 – 20
Furniture and fixtures	10 - 40
Vehicles	10 – 30

Land and construction in progress are not depreciated.

With respect to asset improvements, costs over \$1,500 should be capitalized if:

1. The estimated life of the asset is extended by more than 25%, or
2. The cost results in an increase in the capacity of the asset, or
3. The efficiency of the asset is increased by more than 10%, or
4. Significantly changes the character of the asset, or
5. In the case of streets and roads, if the work done impacts the "base" structure.
6. Otherwise, the cost should be expensed as repair and maintenance.

**BUDGETS**

Public Act 621 of 1978 as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the Township for budgetary funds were adopted on a fund level. Budgets are normally formulated during January and February of each year and a budget hearing is held in March. The Board normally adopts the budget just prior to April 1. Amendments are made to the budgets when determined to be necessary throughout the year. The budgets presented are the final amended amounts. Budgets close on March 31st each year.

For the fiscal year ended March 31, 2006, the Township experienced no over expenditures.

**TOWNSHIP OF CHARLTON  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2006**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**USE OF ESTIMATES**

The financial statements have been prepared in conformity with generally accepted accounting principles as applicable to governments and, as such, include amounts based on informed estimates and judgments of management with consideration given to materiality. Actual results could differ from those estimates.

**NOTE 3: CASH AND INVESTMENTS**

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds and investment pools composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Township has designated one bank for the deposit of its funds. The Investment policy adopted by the Board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs.

Warner Township's deposits and investment policies are in accordance with statutory authority.

As of March 31, 2006, the deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and investments	<u>\$ 507,896</u>	<u>\$ 1,718</u>	<u>\$ 509,614</u>

The Township's cash and investments consist entirely of bank deposits as follows:

Bank deposits - checking and savings accounts	\$ 365,588
Certificates of deposit	<u>144,026</u>
Total	<u>\$ 509,614</u>

**TOWNSHIP OF CHARLTON  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2006**

**NOTE 3: CASH AND INVESTMENTS (CONTINUED)**

**Deposits**

The bank balance of the Township's deposits is \$510,711 of which \$200,000 is covered by federal depository insurance. The remainder was uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated level are used as depositories.

**NOTE 4: CAPITAL ASSETS**

Capital asset activity of the Township's governmental activities were as follows:

Governmental Activities	Balance April 1, 2005	Additions	Disposals	Balance March 31, 2006
Capital assets not being depreciated - Land	\$ 22,412	\$ -	\$ -	\$ 22,412
Capital assets being depreciated:				
Buildings	627,056	2,632	-	629,688
Land improvements	24,765	3,900	-	28,665
Furniture and fixtures	14,213	-	-	14,213
Vehicles	366,975	-	-	366,975
Machinery and equipment	78,681	2,514	-	81,195
Subtotal	1,111,690	9,046	-	1,120,736
Accumulated depreciation:				
Buildings	228,504	11,619	-	240,123
Land improvements	5,902	668	-	6,570
Furniture and fixtures	8,172	711	-	8,883
Vehicles	235,427	10,849	-	246,276
Machinery and equipment	38,410	5,537	-	43,947
Subtotal	516,415	29,384	-	545,799
Net capital assets being depreciated	595,275	(20,338)	-	574,937
Net capital assets	\$ 617,687	\$ (20,338)	\$ -	\$ 597,349

**TOWNSHIP OF CHARLTON  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2006**

**NOTE 4: CAPITAL ASSETS (CONTINUED)**

Depreciation expense was charged to functions of the Township as follows:

General government	\$ 15,417
Public safety	11,729
Recreation and culture	1,607
Health and welfare	<u>631</u>
Total	<u>\$ 29,384</u>

**NOTE 5: FUND BALANCE / NET ASSETS**

**CALCULATION OF BEGINNING NET ASSETS**

The Township adopted GASB Statement No. 34 effective April 1, 2005. The following represents the reconciliation of the Townships fund balance as of April 1, 2005, to its beginning net assets balance, as presented in the statement of Activities, for the year ended March 31, 2006:

Total Fund Balance, Governmental Funds, April 1, 2005	\$ 420,853
Record capital assets	1,134,102
Record accumulated depreciation	<u>( 516,415)</u>
Beginning Net Assets, Governmental Funds, April 1, 2005	<u>\$ 1,038,540</u>

**NOTE 6: PENSION PLAN**

The Township of Charlton contributes to a pension plan which is a defined contribution pension plan administered by the Manulife Financial, Inc.

A defined contribution pension plan provides pension benefits in return for service rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under the Township's defined contribution pension plan, the benefits a participant will receive depends on the amount contributed to the participant's account and the returns earned on investments of those contributions.

All members of the elected Township Board are eligible to participate in the plan. Contributions made by the Township and employees vest immediately. The participant will receive benefits upon termination of employment with the Township.

The plan requires the Township to contribute 12% of the eligible employee's wages. During the year the Township contributed \$6,338 to the plan, which was the

**TOWNSHIP OF CHARLTON  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED MARCH 31, 2006**

**NOTE 6: PENSION PLAN (CONTINUED)**

amount necessary to meet the Township's current year obligation as well as account charges to the plan provider.

No pension provision changes occurred during the year that affected the required contributions to be made by the Township or its employees.

**NOTE 7: ACCOUNTING AND REPORTING CHANGE**

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. The Township of Charlton has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). The Township has elected to implement this Statement as of April 1, 2005. Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Township's activities.
- A change in the fund financial statements to focus on the major funds.
- Capital assets in the governmental activities column of the statement of net assets includes assets totaling \$1,134,502 that would previously have been reported in the General Fixed Asset Account Group.
- Capital assets at April 1, 2005 previously reported in the General Fixed Asset Account Group have been adjusted by approximately \$152,000 to reflect the historical cost of the Township's capital assets at that date.



**TOWNSHIP OF CHARLTON**  
**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**GENERAL FUND**  
**YEAR ENDED MARCH 31, 2006**

	<b>Original Budget</b>	<b>Final Amended Budget</b>	<b>Actual</b>	<b>Variance From Final Amended Budget</b>
<b>Revenues</b>				
Property tax revenue	\$ 114,700	\$ 114,700	\$ 106,238	\$ (8,462)
State shared revenue	121,100	121,100	120,926	(174)
User fees	36,200	36,200	37,677	1,477
Charges for services	34,850	34,850	40,720	5,870
Interest	3,650	3,650	8,824	5,174
Other revenue	11,950	11,950	15,493	3,543
<b>Total revenue</b>	<b>322,450</b>	<b>322,450</b>	<b>329,878</b>	<b>7,428</b>
<b>Expenditures</b>				
General government:				
Township board	91,165	91,165	73,091	(18,074)
Supervisor / Assessor	42,254	42,254	40,337	(1,917)
Elections	1,620	2,120	1,730	(390)
Clerk	17,600	17,600	16,884	(716)
Treasurer	23,765	23,765	23,307	(458)
Township hall	92,270	92,270	39,656	(52,614)
Township office	65,150	65,150	6,735	(58,415)
Cemetery	5,250	5,250	2,833	(2,417)
<b>Total general government</b>	<b>339,074</b>	<b>339,574</b>	<b>204,573</b>	<b>(135,001)</b>
Public works:				
Transfer station	45,815	45,815	40,728	(5,087)
Street lights	2,500	2,500	2,107	(393)
<b>Total public works</b>	<b>48,315</b>	<b>48,315</b>	<b>42,835</b>	<b>(5,480)</b>
Recreation and culture:				
Parks and recreation	12,000	11,500	1,164	(10,336)
Capital outlay	-	-	9,046	9,046
<b>Total expenditures</b>	<b>399,389</b>	<b>399,389</b>	<b>257,618</b>	<b>(141,771)</b>

**TOWNSHIP OF CHARLTON  
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
GENERAL FUND  
YEAR ENDED MARCH 31, 2006**

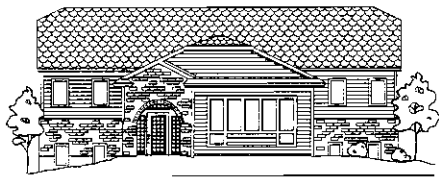
	<b>Original Budget</b>	<b>Final Amended Budget</b>	<b>Actual</b>	<b>Variance From Final Amended Budget</b>
Excess (deficiency) of revenue over (under) expenditures	(76,939)	(76,939)	72,260	149,199
<b>Other financing uses</b>				
Transfers out	-	-	33,273	33,273
<b>Net Change in Fund Balance</b>	(76,939)	(76,939)	38,987	115,926
<b>Fund Balance - Beginning of Year</b>	212,313	212,313	212,313	-
<b>Fund Balance - End of Year</b>	<u>\$ 135,374</u>	<u>\$ 135,374</u>	<u>\$ 251,300</u>	<u>\$ 115,926</u>

**TOWNSHIP OF CHARLTON**  
**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**FIRE/EMS FUND**  
**YEAR ENDED MARCH 31, 2006**

	<b>Original Budget</b>	<b>Final Amended Budget</b>	<b>Actual</b>	<b>Variance From Final Amended Budget</b>
<b>Revenues</b>				
Property tax revenue	\$ -	\$ -	\$ 115,823	\$ 115,823
Charges for services	14,000	14,000	14,453	453
Interest	-	-	573	573
Total revenue	14,000	14,000	130,849	116,849
<b>Expenditures</b>				
Public safety:				
Fire services	57,730	57,730	37,396	(20,334)
EMS services	19,010	19,010	10,376	(8,634)
Total expenditures	76,740	76,740	47,772	(28,968)
Excess (deficiency) of revenue over (under) expenditures	(62,740)	(62,740)	83,077	145,817
<b>Other financing sources</b>				
Transfer in	-	-	33,273	33,273
<b>Net Change in Fund Balance</b>	(62,740)	(62,740)	116,350	179,090
<b>Fund Balance - Beginning of Year</b>	-	-	-	-
<b>Fund Balance - End of Year</b>	<u>\$ (62,740)</u>	<u>\$ (62,740)</u>	<u>\$ 116,350</u>	<u>\$ 179,090</u>

**TOWNSHIP OF CHARLTON**  
**STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**ROAD FUND**  
**YEAR ENDED MARCH 31, 2006**

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance From Final Amended Budget</u>
<b>Revenues</b>				
Interest	\$ -	\$ -	\$ 111	\$ 111
<b>Expenditures</b>				
Public works:				
Road construction and maintenance	-	-	61,437	61,437
Deficiency of revenue under expenditures	-	-	(61,326)	(61,326)
<b>Fund Balance - Beginning of Year</b>	-	-	208,540	208,540
<b>Fund Balance - End of Year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 147,214</u>	<u>\$ 147,214</u>



**Keskin, Cook, Miller & Alexander LLP**  
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Walter J. Keskin, C.P.A.  
Jeffrey B. Cook, C.P.A.  
Richard W. Miller, C.P.A.  
Ronald D. Alexander, C.P.A.  
Curt A. Reppuhn, C.P.A.

September 12, 2006

To the Township Board  
Township of Charlton, Otsego County

We have audited the financial statements of Charlton Township for the year ended March 31, 2006, and have issued our report thereon dated September 12, 2006. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards**

As stated in our engagement letter dated April 5, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Charlton Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

**Significant Accounting Policies**

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Charlton Township are described in the notes to the financial statements.

We noted no transactions entered into by the Township during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

**Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. The following attached page summarizes the adjustments that were proposed to management and made to the audited financial statements.

### **Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Township's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Difficulties Encountered in Performing the Audit**

The Township Clerk utilizes QuickBooks general ledger software. QuickBooks is not designed for governmental accounting. As a result, the Township's general ledger chart of accounts was not organized as required by the State of Michigan's uniform chart of accounts. We worked with the Township Clerk to adjust the QuickBooks general ledger to comply with the State's requirements.

### **Comments and Recommendations**

In planning and performing our audit of the financial statements of Charlton Township, we considered the Township's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit procedures, we became aware of certain matters that represent opportunities for strengthening internal controls and operating efficiency. The following comments and recommendations should be implemented to the extent possible in order to strengthen internal controls and operating efficiency.

- No budgets were approved for the Road or Fire Funds. Budgets are required for all governmental funds. We recommend that the Township approve budgets for the Fire and Road Funds on an annual basis and monitor fund expenditures throughout the year to ensure that the budgets are not overspent.

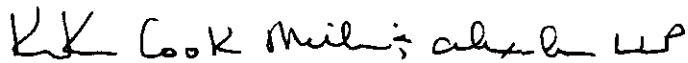
**Comments and Recommendations (Continued)**

- Road tax levy funds remain even though a Road property tax has not been levied in years. It is our understanding that there is a potential for refunds relating to cases currently in the Tax Tribunal process. We recommend that the Board continue to monitor those cases and formulate a plan for spending those Road tax funds in the future.

We hope that you find the above comments and recommendations useful. We are available to discuss these items in further detail with you at your convenience.

This information is intended solely for the information of the Township Board and management and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in dark ink, appearing to read "Keskin, Cook, Miller & Alexander LLP". The signature is stylized and cursive.

Keskin, Cook, Miller & Alexander LLP